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American Eagle
Federal Credit Union

April 2, 2009

Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Re: Comments on Advanced Notice of Proposed Rulemaking for Part 704

Dear Ms. Rupp:

Thank you for the opportunity to provide comment on the NCUA's advance notice of proposed rulemaking and request for comment concerning the role of the Corporate Credit Union Network and its structure. Corporate credit unions provide essential services to natural person credit unions. This is especially true for small to mid-size credit unions. The corporates provide affordable payment services, access to investments and liquidity, all of which help natural person credit unions to compete.

American Eagle Federal Credit Union uses Constitution Corporate Federal Credit Union for many services: share draft processing, ACH processing, wires, investments and liquidity to name a few. In addition, American Eagle Federal Credit Union uses Eastern Corporate Federal Credit Union for investments and liquidity. Although these services are available elsewhere, the expense would be far greater.

While it is true that corporates provide many useful services to natural person credit unions, given the gravity and magnitude of the problems that exist as a result of corporate business activities, it is clear that there is a need for change. These changes should focus on the reduction of investment and liquidity risk within the corporate system, while fostering greater regulatory oversight and control. We advocate that corporates should not be eliminated; however, we believe the corporate business model going forward should focus on payment/settlement services and less on investment/liquidity services. The responses to the questions below address this general theme.

The framework of questions was provided by NAFCU and we have forwarded our responses to them as well as you. We appreciate your consideration of the attached responses to specific requests for comments in the ANPR.

Thank you again for the opportunity to provide comment.

Sincerely,

William J. Dokas
President/CEO
American Eagle Federal Credit Union

American Eagle

1. The NCUA is contemplating two alternatives regarding corporates' payment services function. One alternative is to establish two separate charters, one which would give corporates authority limited to operating a payment system and another which would allow corporates to engage in providing investments services. Do you believe that the NCUA should pursue the two separate charters system? Please explain.

No. The treasury (payment services) and investment functions have historically been fully integrated because the settlement of payments results in the investment of excess liquidity. Maturing investments settle back through the payment services systems. The proposed alternative would complicate the process and result in managing more business relationships. The separation of corporate credit services would make bank alternatives less costly and more appealing. The key focus going forward should be to maintain the payment services function and reduce the types of investments that corporates can make in order to reduce risk exposure and restore confidence in the system.

2. Under the second alternative regarding corporates' payment services function, the NCUA would establish distinct capital requirements of payment systems risk and the risk of other corporate services, with a legal and operational firewall set up between payment system services and other services. Do you believe that this alternative is preferable? Please explain why or why not.

Yes. If the NCUA did choose a two charter system, it would be important to provide protections and the mitigation of risk in the payment systems area. Going forward, these types of protections are critical to restoring confidence in the system and its future success and viability.

3. The NCUA is assessing whether providing liquidity for the credit union system should remain a core function of the corporate system. Do you believe that corporates should continue to have this function? If yes, please explain what steps you believe are needed to strengthen this function.

No. They should only be used as an intermediary (agent) for natural person credit unions to access the CLF and other liquidity alternatives. Natural person credit unions must be more accountable for establishing risk tolerances, managing investments, liquidity and leveraging. It is clear that this problem is a result of corporates mismanaging their own liquidity needs and taking undue risks in order to provide credit unions with higher investment rates to attract funds.

4. The ANPR states that the agency is considering removing corporates' ability to have national fields of membership. Do you believe that the option of having a national field of membership should be maintained? Please explain.

No. National charters increased competition between corporate credit unions and caused them to take unnecessary risks to gain competitive advantage. Fundamentally, I would advocate a reduction in the number of corporate credit unions to a more regional approach. This would make it easier for the NCUA to regulate and oversee their operations. It would also enable corporates to take advantage of economies of scale in order to remain competitive with other

payment systems alternatives. Essentially, I believe that the corporates' new business model should operate with less corporates, less investment risk (and resulting lower spreads) and a focus on correspondent/agent/payment system services that are priced as competitively as possible through the benefits of scale.

5. Current regulations provide corporates expanded investment authority, which natural person credit unions do not have. Should corporates continue to have the expanded authorities? If so, please explain what modifications you think should be made to the procedures and qualifications, including capital standards and/or reducing the authorities (for example, should the NCUA prohibit certain categories of investments, such as collateralized debt obligations (CDOs), net interest margin securities, and subprime and Alt-A asset backed securities?). If not, please explain your reasons in detail.

No. It is obvious that the current financial condition of corporates is a result of the types of investments and the leveraging they were engaged in. If the corporate system is to survive, it is critical that the NCUA eliminate certain types of investment options and institute tighter leveraging controls in order to reduce risk and prevent liquidity problems. These actions will help restore confidence in the system.

6. As part of its comprehensive review of the system, the NCUA is looking at whether the current two-tiered system, consisting of the retail corporates that offer products and services to natural person credit unions and the wholesale corporate that services the retail corporates, is needed. Do you believe that the NCUA should change to the two-tiered system? If so, please explain what change(s) should be made.

Yes. There is only one level of corporate credit unions needed – Retail.

7. Corporates are required to maintain a four percent capital ratio. Do you believe that the ratio should be modified? Please explain why or why not.

Capital ratio requirements should be a function of the new corporate business model design. It will be important to gauge the risks of the new corporate business model and establish capital ratio levels that are appropriate for the risks associated with their business activities.

8. Currently, core capital (i.e., "tier one capital") is defined as retained earnings plus paid-in capital. Should the agency establish a new capital ratio consisting only of core capital? If so, how should core capital be measured?

Yes. Going forward it is important for the NCUA to assess the whole notion of paid-in capital and membership capital as it relates to the impact it can have on natural person credit unions in the event of financial difficulties at a corporate. More emphasis should be placed on unrestricted undivided earnings and away from paid-in capital and membership shares.

9. The ANPR also addresses various aspects of NCUA's regulations on membership capital for corporates. One aspect of the membership capital rule that NCUA is also looking at is whether to require that any withdrawal of membership capital be conditional on the corporates ability to meet all applicable requirements following withdrawal. Do you believe that this would a reasonable condition? Please explain in detail.

No. Additional withdrawal conditions will make membership capital investments less appealing and hinder the prospects for future membership and PIC capital investments.

10. Should the NCUA pursue a risk-based regime for corporates? Please explain.

Yes. A risk-based regime should exist and would not require regulations or legislation to do so.

11. The ANPR identifies credit risk management as an issue area that may require revisions, including limiting the extent to which the corporates may rely on credit ratings provided by Nationally Recognized Statistical Rating Organizations. Do you believe that NCUA should alter the parameters for corporates' credit risk management? Please explain.

Yes. There were obvious weaknesses with the rating organizations' assessments due to the lack of regulatory oversight and internal audit/quality reviews for these organizations. Something has to be done with the rating organizations to ensure that they are correcting the weaknesses in their rating systems. They must take action to restore their credibility so the marketplace can rely on their assessments. There should be new audit controls and compliance criteria installed to correct the weaknesses that contributed to the breakdowns and abuses. The NCUA should also consider requiring more than one rating organization's assessment and using the lowest of the scores to establish purchase qualification.

12. NCUA is considering re-instating a requirement that corporates perform net interest income modeling or stress testing, or instituting some form of mandatory modeling and testing of credit spread increases. Do you believe modeling or stress testing should be required? If so, please explain as specifically as possible.

Yes. Modeling and stress testing are required to make good business decisions. Adding these requirements by regulation would provide the NCUA with better oversight information to monitor and supervise corporate credit unions.

13. The comprehensive evaluation of the corporate system includes issues related to corporate governance. NCUA is contemplating requiring minimum standards for directors, including that a director possess an appropriate level of experience and independence. Do you believe there should be such standards? Please explain.

Yes. There should be standards for directors, but more importantly, there should be standards for the management team of the corporate. While it is important to have directors that are experienced, it is more important that the corporates are being run be experienced professionals.

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Since the board is responsible for the hiring of qualified management officials, they have to have the required experience, or seek the required assistance to hire a qualified management team.

14. NCUA is also considering imposing term limits on corporate directors. Do you support the imposition of term limits? If so, what terms should be imposed?

I believe that term limits should not be required. If a corporate goes through the rigor of finding qualified directors, it only helps the corporate to have directors that have as much experience as possible in dealing with the many business issues that evolve from different economic cycles. The Nominating Committee should determine the length of a director's service by the value and directional quality they bring to the corporate.

15. The ANPR also states that changes to corporate governance standards may include allowing compensation for corporate directors and requiring greater transparency for executive compensation. Do you believe directors should be compensated and greater transparency for executive compensation should be required? If you believe in requiring greater transparency for executive compensation, how do you think the NCUA could achieve this goal?

Given the fact that I am advocating standards for directorships on corporate boards, I believe that compensation may be necessary to aid in the finding of qualified and experienced directors. Given the structure of the corporate credit union system, I do not believe that the disclosure of executive compensation is necessary or adds any value to the concerns for transparency and governance.

16. The agency is also examining whether to establish a category of "outside directors" (persons who are not officers of the corporate, officers of member credit unions, and/or individuals from outside the credit union industry). Do you believe this change would be appropriate? Please explain in detail.

No. I believe the governance of the corporates should come from within the system. Since corporates provide services to meet the needs of member credit unions, governance of these organizations should come from individuals who understand credit unions and their unique needs.